

TESTIMONY OF
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U.S. DEPARTMENT OF AGRICULTURE
BEFORE THE
COMMITTEE ON BUDGET
WELFARE TASK FORCE
U.S. HOUSE OF REPRESENTATIVES
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Good morning, Mr. Chairman and Members of the Committee. I am Shirley Watkins, Under Secretary for Food, Nutrition and Consumer Services at the U.S. Department of Agriculture (USDA). I am pleased to join you this afternoon as your Task Force looks at the Food Stamp Program.

A crucial part of the President's and Secretary Glickman's commitment to delivering nutrition assistance to needy Americans is ensuring the integrity of the Food Stamp Program by protecting it from those who would misuse or abuse it. The Food Stamp Program is our nation's most important nutrition program, and protecting its integrity is one of our highest priorities. Food stamps are intended for food, and we do not and we will not tolerate fraud and abuse in the Food Stamp Program. We work tirelessly to identify ways to strengthen program management and keep public confidence high in

this vital program.

When individuals or retailers sell benefits for cash, it violates the intent and the spirit of the Food Stamp Program as well as the law. This practice, known as trafficking, reduces intended nutritional benefits and undermines the public's perceptions of the integrity and utility of the program.

The crucial question, I believe, for today's hearing, is to what extent does trafficking exist. Last week, we released a study, entitled "Extent of Trafficking in the Food Stamp Program: An Update," which shows that the level of food stamp benefits trafficked for cash dropped by 19 percent from 1993 to the period from 1996 to 1998. We estimate that stores trafficked about \$660 million per year. Furthermore, the trafficking *rate*—which compares dollars trafficked to benefits issued—declined 8 percent: from almost four cents of every dollar of food stamp benefits issued to three-and-one-half cents of every dollar issued. (Mr. Chairman, I ask that the study be included for the record.) While we can credit much of the decline on a strong economy and the enactment of welfare reform resulting in a drop of the food stamp rolls, certainly our expansion of Electronic Benefit Transfer, or EBT, and continued enforcement efforts have contributed as well.

In addition, USDA, in spite of scarce resources, has instituted several initiatives to combat trafficking and other offenses:

- 1.) The Personal Responsibility and Work Opportunity Act of 1996 provided the Department with much needed authority to strengthen enforcement of program integrity and eliminate fraud by strengthening penalties not only against recipients, but against

retailers as well. As a result, the Department now has and is using this authority to suspend retailers immediately for the most egregious program offenses—trafficking in food stamp and EBT benefits.

2.) Retailer oversight is a Federal responsibility, and begins with the Food and Nutrition Service (FNS) screening retailers seeking approval to accept food stamps or EBT cards at their stores. Although retailers are essential partners in the Food Stamp Program, store's must meet all legal requirements in order to participate in the program. In order to participate, a store owner applies directly to one of our field offices, providing that office with information on the store's sales and food stock, and other business information.

To the extent possible and where resources are available, FNS field staff conduct store visits prior to authorizing a store in order to make sure the store is, in fact, a real food store and not a liquor store, a dry cleaners, or an empty storefront devoted to illegal activities. Currently, there are 170,000 authorized retailers participating in the food stamp program nationwide. We recently began using contract staff in coordination with our own staff to perform pre- and post- authorization visits to stores to gather information for us on the nature of the business actually being conducted by a store. Still, in spite of our rigorous screening efforts, some authorized stores have owners or employees willing to sell ineligible items or engage in trafficking.

FNS has a staff of 46 compliance branch investigators nationwide dedicated to uncovering abuse by authorized retailers; and, during the last five years, FNS has investigated over 24,000 stores nationwide suspected of violations. By targeting our

efforts on stores suspected of illegal activities, we found evidence of violations in 44 percent of the investigations. Agency investigators uncovered trafficking—as opposed to sales of ineligible items—in over 3500 of these stores.

3.) FNS' is actively pursuing civil prosecution through the U.S. Department of Justice under the Civil False Claims Act against stores found trafficking in food stamps.

4.) Issuing food assistance benefits electronically is also changing and improving the way we protect benefits from fraud and abuse by reducing street trafficking and by creating an electronic paper-trail linking those who cheat the program with the crime. Maryland, New Jersey, New Mexico, South Carolina and Texas have all used EBT data to identify recipient trafficking. EBT is key to delivering food stamp benefits efficiently, affordably and securely to recipients. In 1992, barely one percent of all food stamp households nationwide were receiving their food stamp benefits electronically. Today, we estimate 75 percent of all households are using an EBT card to access their benefits. Forty States plus the District of Columbia have now implemented food stamp EBT systems, in all or parts of their States, and all States will be issuing food stamp benefits electronically by the year 2002.

5.) Several years ago, FNS successfully deployed an automated EBT anti-fraud system called “ALERT.” The ALERT system records EBT transactions electronically so that we have a record of the store, the date, the time, the purchase amount, the recipient's card number and the point of sale terminal. ALERT's computerized system examines and analyzes this data, quickly identifying suspicious patterns and speeding our ability to investigate, process and remove cheating stores from the program.

6.) Finally, the Department is conducting a series of national food stamp conversations around the country this summer to solicit input and ideas so that we can build upon the successes in the program to reach all eligible individuals and families; simplify the program while maintaining prudent stewardship; and effectively measure program performance. As a matter of fact, I will be chairing the next conversation tomorrow in New York City.

In closing, I want to thank you, Chairman Nussle, and members of this committee, for your interest, commitment and cooperation in working with the Department to protect the integrity of the Food Stamp Program.

Mr. Chairman, this concludes my prepared remarks. I would be happy to answer any questions you may have.